

2005 Strategic Business Plan



Welcome to MSF



Our Mission: Montana's insurance carrier of choice and industry leader in service.

July 1, 2004 through June 30, 2005

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AN OUNCE OF PREVENTION IS WORTH A LOT OF DOUGH.

When an employee is injured, it affects everyone. And since safety starts at the top, Montana State Fund is here to help you minimize your company's risks. Our free safety trainings, early-return-to-work program and top-notch customer service make us Montana's preferred workers' compensation provider. Find out how we can help protect your most important assets by contacting your local Montana State Fund Agent, or visit us on the web.



YOU'RE LUCKY YOUR MOTHER DIDN'T SEE YOU DO THAT.

The importance of safety in the workplace can't be overstated. When an employee is injured, it affects everyone. And since safety starts at the top, Montana State Fund is here to help you minimize your company's risks. Our free safety trainings, early-return-to-work program and top-notch customer service make us Montana's preferred workers' compensation provider. Find out how we can help protect your most important assets by contacting your local Montana State Fund Agent, or visit us on the web.



Take the gamble out of workplace safety.

Employees are the lifeblood of your company. When someone is injured, it affects your entire business. And since safety starts at the top, Montana State Fund is here to help you minimize your company's risks by making your work environment as safe as possible. Our free safety trainings, early-return-to-work program and top-notch customer service make us Montana's preferred workers' compensation provider. Find out how we can help you protect your most important assets by contacting your local Montana State Fund Agent, or visit us on the web.



From the President . . .



At Montana State Fund, we attribute much of our ongoing success to our strategic planning process. Each year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers and improve efficiencies and effectiveness in our operations. It is incumbent upon any organization to face their challenges with a focus, a clear understanding of the tasks at hand, development of a blueprint for improvement, and follow through with well-planned and measurable actions. Our leadership team has spent a significant amount of time and effort in formulating this plan. On June 21, 2004, our Board of Directors gave us a vote of confidence by their unanimous approval of our strategic initiatives. I am confident that the goals we have committed ourselves to will allow us to improve our financial strength and stability, as well as continuing to deliver the highest quality workers' compensation insurance to Montana businesses at competitive prices.

The strategic priorities identified in our new plan build upon the foundation we have laid out in previous ones. We are focusing on operational improvements that will boost our efficiency and enhance customer service, as well as targeting specific financial success measures. Together, these initiatives will serve to strengthen our organization, and will position us to meet the challenges that lie ahead. Each strategic goal has success measures that are quantifiable in terms of time, quality, quantity, and/or dollars. We have established five financial success measures and one qualitative measure that together will facilitate the achievement of our strategic initiatives.

Our vision as an organization is that we are committed to the health and economic prosperity of Montana. We accomplish this by providing superior service and leadership, with caring individuals working in an environment of teamwork, creativity and trust. We know that you, our stakeholders, rely on us to be able to envision how we can maximize our resources to fulfill our mandate as a competitive state fund. It is a challenge we willingly accept.

The targets being set are reasonable and reachable, and will require the commitment of each and every one of us at MSF to attain. As an organization, and as human beings, we need to constantly challenge ourselves to "stretch" to improve. We made great strides during FY04, and I'm confident and excited that in FY05 we will meet or exceed all our targets. I look forward to working with all of you in the coming year, and appreciate your ongoing support of our company as we continue to serve the people of Montana.

A stylized, handwritten signature in dark ink, reading "Laurence Hubbard".

Laurence Hubbard
President and Chief Executive Officer

Executive Summary

Montana State Fund operates in a dynamic and competitive environment. Our success in the past and our continued progress in the future are dependent upon our ability to anticipate and respond rapidly to service expectations and industry change. We have weathered the forces of change by relying on four basic principles as our foundation. They are:

Strength—MSF maintains a strong financial position to ensure continued long-term stability and financial solvency based on actuarially sound rates and reserves.

Commitment—MSF operates in a customer-focused, team oriented, high performance culture that challenges and empowers our employees to deliver the highest quality insurance products and services to Montana businesses at the lowest possible cost consistent with sound insurance principles.

Competition—MSF furnishes and markets high-quality insurance services and products at appropriate and competitive prices. By doing so, the premiums charged are more competitive for all Montana businesses, since we provide an option for any employer to purchase their mandatory workers' compensation coverage.

Service—MSF provides coverage to nearly 27,000 businesses of all sizes. Our account-based team structures create customer loyalty by providing superior service to our policyholders and injured employees. By working with independent agents, we maintain a partnership with stakeholders in the true spirit of cooperation.

Ultimately the strategy and goal for Montana State Fund is to maintain a viable, stable workers' compensation market for Montana businesses that:

- Has financial strength and long-term solvency
- Markets high-quality services/products at competitive prices
- Empowers employees to deliver our promise
- Provides a differentiated level of service to our customers

The strategic priorities identified in this plan build upon the foundation we have laid out in previous plans. We are focusing on operational improvements that will boost our efficiency and enhance customer service, as well as targeting specific financial success measures. Together, these initiatives will serve to strengthen our organization, and will position us to meet the challenges that lie ahead.

Our strategic initiatives for fiscal year 2005 are:

1. Customer Service and Organizational Efficiencies: Deliver superior service to our internal/external customers through continual refinement of operations services that include focus on effective claims management, operational workflows and process while responding to customer wants, needs and expectations.

2. Information Technology: Provide additional business functionality, create efficiencies, and reduce the

cost of business for our customers and MSF. Replace/renovate proprietary systems and add new systems with “Value Edge” software and hardware packages within a defined architecture.

3. Financial Strength and Strategic Planning: Improve our financial analysis capabilities and planning processes. Achieve specific targets in net operating income, net earned premium, loss ratio, expense ratio, and investment income that will allow us to continue to deliver the highest quality workers’ compensation insurance at reasonable prices to our customers.

4. Employee Development: Review, revise and update Human Resources policies and programs where appropriate to increase the effectiveness of MSF employees and decrease overall costs. Institute employee and management development programs that bolster operational skills. Revise MSF compensation program to ensure competitiveness in the marketplace.

5. Montana State Fund Structure: Support the long-term economic prosperity of Montana by proactively contributing knowledge and expertise to create a workers’ compensation environment that best meets the needs of Montana businesses and their employees. Facilitate government relations and foster the recognition and understanding of MSF as a public entity operating as a competitive workers’ compensation insurance company. Proactively participate in the 2005 legislative session, and provide accurate information on workers’ compensation issues, so that any proposed legislation meets the needs of stakeholders.



Strategic Framework

Mission

Montana State Fund is Montana's insurance carrier of choice and industry leader in service.

Vision

Montana State Fund is committed to the **health** and **economic prosperity** of Montana through **superior service, leadership** and **caring** individuals working in an environment of **teamwork, creativity** and **trust**.

Guiding Principles

Integrity and Ethical Conduct

While providing superior service to our policyholders, their injured employees, and insurance producers, we will conduct ourselves with integrity and in an ethical manner.



Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation. Enter into strategic partnerships when they can improve service and products to our customers.

Strong Financial Position

Maintain adequate rate levels, financial strength and stability. A strong financial position ensures continued long-term stability and financial solvency based on actuarial sound rates and reserves.

Offer Quality & Competitive Insurance Service and Products

Deliver high quality insurance products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. In doing so, MSF basically functions as a private insurer asserting its competitiveness within the framework of maintaining a healthy financial position, and competitively priced products based on actuarially sound rates.

Strategic Framework/Strategic Key Success Measures

Employee Growth and Development

Support a performance-driven culture and a continuous improvement work environment that is conducive to the development and growth of our employees. Foster a customer-focused, team-oriented, high-performance environment that empowers, challenges, satisfies and rewards our employees.



FY 2005 Strategic Success Measures

Strategic key success measures are the goals set for fiscal year 2005. They are measurable in terms of time, quality, quantity, and/or dollars.

The following objectives are the corporate level key success measures that will be used to gauge strategic and financial success. We have established five financial success measures and one qualitative measure that together will facilitate the achievement of our goals.

1. Achieve targeted fiscal year Net Operating Income before dividend of **\$7.1 million**.
2. Achieve total Net Earned Premium of **\$146.9 million**.
3. Achieve Calendar Year Loss Ratio of **81.2%**.
4. Maintain an Expense Ratio of **29.0%** or less.
5. Achieve Investment Income of **\$23.7 million**.
6. Achieve Strategic Initiatives.

Strategic Initiatives



Strategic Initiatives

Strategic initiatives are significant multi-departmental projects that represent how MSF will achieve our strategic goals. The strategy is supported by six strategic success measures (five financial/one qualitative). Specific tactical milestones, in turn, support the strategic success measures. The tactics give way to multi-functional activities (Key Performance Indicators) that are both actionable and measurable. There are specific time lines for accomplishment of key performance indicators that are committed to by the owners of the process.

1. Customer Service and Organizational Efficiencies: Deliver superior service to our internal/external customers through continual refinement of operations services that include focus on effective claims management, operational workflows and process while responding to customer wants, needs and expectations.

Key Activities

- *Complete Business Process Modeling (BPM) for customer service.*
- *Implement Policy BPM (renewal/audit/cancellation/billing options).*
- *Focus Safety Services on target market segments.*
- *Complete Customer/Injured Employee survey, using responses to identify areas for improvement, to incorporate into future plans.*
- *Explore Alternative Pricing Mechanisms as complement to traditional methods.*
- *Assess and evaluate Automated Medical Bill Review System.*
- *Plan and prepare for future state best practices as part of new claim system.*
- *Recommend product development and strategic alliance methodology.*
- *Improve development of claim expertise.*

2. Information Technology: Provide additional business functionality, create efficiencies, and reduce cost of business for our customers and MSF. Replace/renovate proprietary systems and add new systems with “Value Edge” software and hardware packages within a defined architecture.

Key Activities

- *Complete development of new claims system and deploy as parallel test.*
- *Implement new General Ledger.*
- *Implement Phase II Budget System.*
- *Implement Data Warehouse upgrade and ad hoc reporting.*
- *Automate payroll changes.*
- *Automate rating.*

Strategic Initiatives

3. Financial Strength and Strategic Planning: Achieve specific targets in net operating income, net earned premium, loss ratio, expense ratio, and investment income that will allow us to continue to deliver the highest quality workers' compensation insurance at reasonable prices to our customers.

Key Activities

- *Improve MSF Strategic and Annual planning process.*
- *Complete BPM for finance.*
- *Review effectiveness/efficiencies of organizational structure.*

4. Employee Development: Review efficiencies and effectiveness of our organizational structure emphasizing core competencies. Institute employee and management development programs that bolster operational skills. Revise MSF compensation program to ensure continued competitiveness in the marketplace.

Key Activities

- *Complete BPM for human resources.*
- *Complete Employee Opinion survey, using responses to identify areas for improvement, to incorporate into future plans.*
- *Modify current performance management and salary administration processes.*
- *Develop/implement employee and management development programs.*

5. Montana State Fund Structure: Support the long-term economic prosperity of Montana by proactively contributing through sharing of knowledge and expertise to create a workers' compensation environment that best meets the needs of Montana businesses and their employees.

Key Activities

- *Develop and provide legislative education.*
- *Implement legislative initiatives.*

Organizational Profile

The State of Montana originally established the predecessor to the Montana State Fund in 1915 to function as a competitive workers' compensation insurance carrier. Since then, Montana State Fund has assumed several different forms, with its current structure resulting from actions taken in 1990. At that time, the legislature separated the workers' compensation regulatory functions (which were established in the Montana Department of Labor and Industry) from the insurance responsibilities (which were vested in a separate new Montana State Fund). A seven-member board of directors appointed by the Governor governs the Montana State Fund. The board appoints the President/CEO.

Montana State Fund is a self-sufficient, non-profit workers' compensation insurance carrier. Our statutory purpose is to be a competitive insurance carrier, provide an available market and guarantee coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premiums paid by insured employers and revenues from investments. We function like a private insurance carrier in a competitive marketplace and, as provided in law, perform all functions and exercises all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.



Montana State Fund has also gone through numerous changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is adapted to the needs of the information age. A comprehensive corporate redesign in 2000 enhanced our operational structure with the addition of multifunctional teams to service specific groups of employers and their injured employees. It also resulted in a flatter management structure, increased empowerment of employees, and a larger safety and medical claim management staff that works more closely with policyholders and injured employees. We have improved efficiencies in a number of operational areas and have made a major investment in our safety management services, working with Montana employers to try and prevent accidents from occurring. As Montana's economic structure undergoes another evolutionary change, we continue to fill our critical role as the guaranteed market.

Financial Projections

PROJECTED RESULTS OF OPERATIONS

MONTANA STATE FUND

Statutory Basis

Operating Statement

(numbers expressed in thousands)

	Actual	Best Estimate			
	2003	2004	2005	2006	2007
Premium Income	\$117,777	\$136,121	\$146,905	\$144,461	\$145,141
Investment & Other Income	28,257	25,548	22,053	24,037	25,816
Total Losses and Expenses	(180,547)	(162,844)	(161,868)	(159,477)	(159,777)
Policyholder Dividend	(2,950)	(2,000)	TBD	TBD	TBD
Net Income	\$ (37,463)	\$ (3,175)	\$ 7,090	\$ 9,021	\$ 11,180

TBD - Future dividends to be determined by the Board of Directors

Premium to Surplus Ratio (X : 1) ^a	0.95	1.03	1.07	0.99	0.92
Loss Reserve to Surplus Ratio (X : 1) ^a	3.32	3.28	3.23	3.07	2.88
FY Combined Ratio (Loss + LAE + UW)	153.30%	119.63%	110.19%	110.39%	110.08%
Dividend to Premium Ratio	2.50%	1.47%	TBD	TBD	TBD

^a - Ratios prior to any dividend declared

Balance Sheet

Total Assets	\$584,839	\$598,550	\$611,081	\$622,846	\$633,963
Unpaid Losses & Loss Adjustment Expenses	\$413,400	\$433,654	\$443,415	\$450,210	\$454,059
Other Liabilities	49,840	34,592	30,271	26,220	22,307
Total Liabilities	\$463,240	\$468,246	\$473,686	\$476,430	\$476,366
Surplus	\$121,599	\$130,304	\$137,395	\$146,416	\$157,597
Total Liabilities and Surplus	\$584,839	\$598,550	\$611,081	\$622,846	\$633,963

Montana State Fund Board of Directors

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